

September 1993

FOREIGN ASSISTANCE

Improvements Needed in AID's Oversight of Grants and Cooperative Agreements



150121

**RESTRICTED--Not to be released outside the
General Accounting Office unless specifically
approved by the Office of Congressional
Relations.**

558044

RELEASED

1. The first part of the document is a header section containing the title and the author's name. The title is "The History of the United States" and the author is "John F. Kennedy".

2. The second part of the document is a table of contents. It lists the chapters and their corresponding page numbers. The chapters are: "The Discovery of America", "The First Settlements", "The Revolutionary War", "The Constitution", "The Civil War", "The Reconstruction", "The Gilded Age", "The Progressive Era", "The World War", "The New Deal", "The Cold War", and "The Modern Era".

3. The third part of the document is the main body of the text. It begins with a chapter on "The Discovery of America". This chapter discusses the early exploration of the continent by Christopher Columbus and other European explorers. It also covers the first settlements established by the Europeans.

4. The fourth part of the document is a conclusion. It summarizes the main points of the document and provides a final thought on the history of the United States.



United States
General Accounting Office
Washington, D.C. 20548

National Security and
International Affairs Division

B-253404

September 17, 1993

The Honorable Christopher J. Dodd
United States Senate

The Honorable Sam Gejdenson
House of Representatives

In response to your request, we reviewed the Agency for International Development's (AID) policies and procedures for administering grants and cooperative agreements with private voluntary organizations, educational institutions, and other nonprofit organizations. Our review was conducted in AID/Washington and at AID missions in Bolivia, Egypt, El Salvador, and Indonesia. This report contains recommendations to the Administrator of AID that are intended to help the agency improve its system of management controls for grants and cooperative agreements.

As agreed with your office, unless you publicly announce this report's contents earlier, we plan no further distribution until 30 days from its issue date. At that time, we will send copies to the Administrator of AID; the Director, Office of Management and Budget; and interested congressional committees. Copies will be made available to others on request.

Please contact me at (202) 512-4128 if you or your staff have any questions on this report. Major contributors to this report are listed in appendix VI.

A handwritten signature in cursive script, reading 'Harold J. Johnson'.

Harold J. Johnson
Director, International Affairs Issues

Executive Summary

Purpose

The Agency for International Development (AID) distributes project assistance primarily through direct contracts, host country-awarded contracts, and grants and cooperative agreements. Specific support grants and cooperative agreements are intended to support clearly defined programs established or proposed by the recipients.¹ During fiscal year 1991, AID had \$4.8 billion in active specific support grants with about 900 private voluntary organizations, educational institutions, and other nonprofit organizations.

Senator Christopher Dodd and Representative Sam Gejdenson requested that GAO review AID's policies and procedures for administering grants to nonprofit organizations. At AID/Washington and missions in Bolivia, Egypt, El Salvador, and Indonesia, GAO examined whether AID had effective controls and procedures to (1) maximize competition in grant awards, (2) ensure the proper use of grant funds, and (3) monitor grantee performance. In both AID/Washington and the overseas missions, GAO restricted its review to grants that were active during some point in fiscal year 1991. GAO's review focused on the application of AID's system of internal controls for specific support grants and not on the possible effects of noncompliance with such controls.

Background

Grants are used when the federal government wants to transfer money, property, or anything of value to accomplish a public purpose authorized by federal statute. AID uses grants to promote such foreign assistance objectives as improving health in developing countries and controlling population growth. For example, grants have been used to stimulate malaria vaccine research and improve birth control methods. Approximately two-thirds of all grant funds are awarded by AID/Washington, with the balance of funds being distributed by AID's overseas missions. Individual grants can range in value from only a few thousand dollars to several million dollars for larger projects.

Grants must be managed in compliance with the Federal Grant and Cooperative Agreement Act of 1977 and related Office of Management and Budget (OMB) circulars. Neither the act nor the circulars provide extensive guidance on how grants should be awarded or monitored because they are generally viewed as conditional "gifts" to an organization. Nonetheless, they suggest that federal agencies exercise prudent oversight of

¹A cooperative agreement is identical to a grant except that the agency is "substantially involved" with the program's implementation. For ease of presentation, the term "grants" will be used to refer to both grants and cooperative agreements throughout this report.

government funds. For example, both the act and OMB guidance encourage the use of competition in grant awards whenever feasible.

Results in Brief

AID staff did not consistently implement any of the key internal controls GAO reviewed. AID lacked reasonable assurance that competition was used to the maximum extent possible since project officers frequently failed to prepare noncompetitive award justifications or provide sufficient evidence to support an exception to competition.

AID lacked adequate assurance that grant awards did not include excessive costs or unallowable expenses. Grant officers did not always prepare written justifications for negotiated budgets or prepare justifications that documented that a proper cost analysis had been performed. AID also lacked adequate assurance that all grantees were qualified because grant officers did not routinely document their determinations that prospective recipients had adequate management and financial capabilities. In addition, grant officers only made limited use of primary source data to support their conclusions that prospective grantees were capable of handling an AID grant.

AID's ability to monitor grant recipients was restricted because project officers often did not use measurable benchmarks and target dates. Time constraints and travel fund shortages also hindered monitoring efforts. This particularly hampered grant officers' ability to conduct site visits—one of AID's most important monitoring tools. Despite these constraints, AID/Washington project officers usually did not designate field staff to conduct site visits for AID/Washington grants implemented overseas.

GAO's data shows that these and other controls can be adhered to. For each control GAO reviewed, at least one mission or AID/Washington was in substantial compliance with agency guidance.

Principal Findings

No Assurance That Competition Was Used Whenever Feasible

Contrary to AID guidance, project officers did not always prepare written justifications for noncompetitive awards for a grant officer to review. AID officials could not provide a written justification for \$443 million in

noncompetitive awards made by AID/Washington. Two of the four missions GAO visited had significant deficiencies in this area. In El Salvador, for example, mission officials infrequently prepared justifications, even though 84 percent of the mission's grant funds were awarded without competition.

In those instances where GAO was able to locate a written justification for a noncompetitive award, the "unique, innovative, or proprietary" nature of the grantee's proposal or the grantee's "exclusive or predominant" capability was cited as the primary justification for 36 percent of AID/Washington grant funds. The amount ranged from 13 to 61 percent for the missions GAO visited. Some of these justifications merely repeated handbook language without providing additional support. In addition, AID guidance does not specifically define what type of evidence is needed to support an exception to competition—a potential loophole that is vulnerable to misuse.

AID lacked reasonable assurance that grants were not sometimes used to avoid the more stringent competition requirements associated with contracts.² AID guidance requires the grant officer to support in writing the selection of a grant as the proper implementing instrument. GAO found that grant officers did not always comply with this procedure. In AID/Washington, 26 percent of all grants funds lacked the required statement on instrument selection. Two of four missions GAO visited had no documented rationales for instrument selection. Grant officers in these two missions cited alternative oversight activity, such as sitting on project design committees, as a basis for not formally documenting instrument selection decisions. Senior AID officials indicated that this explanation does not excuse the lack of adherence to agency handbook guidance.

Internal Controls Did Not Ensure Funds Accountability

AID did not effectively implement internal controls designed to ensure that negotiated budgets were reasonable and that grant resources were managed prudently. GAO found that grant officers frequently did not prepare a written justification of the grantee's proposed budget. Thirteen percent of AID/Washington grant funds were not covered by a written budget justification. Three of four missions GAO visited had significant deficiencies in this area. For example, 97 percent of sampled grant funds awarded by the mission in Indonesia were not covered by a written budget

²Besides lost competition opportunities, other significant losses—such as the government's inability to demand that certain product or service specifications be met—can result from the inappropriate use of a grant in place of a contract.

justification. The quality of prepared justifications was uneven because AID handbook guidance does not explicitly state how they should be done.

AID guidance states that before making an award, the grant officer should determine whether the prospective recipient has adequate management and financial capabilities to handle an AID grant. This determination of management responsibility should be documented in a negotiation memorandum. Thirty-one percent of AID/Washington grant funds did not have a grant officer-prepared responsibility determination. Two of four missions GAO visited did not have any grant officer-prepared responsibility determinations.

Written responsibility determinations frequently did not cite primary source data to support the grant officer's conclusion that the grantee was responsible. Typically, they did not refer to the grantee's past performance on other federal awards. Mission-prepared responsibility determinations included this information to a greater extent than those in AID/Washington.

Grant officers in El Salvador and Indonesia cited staff shortages and year-end work demands as reasons for the absence of proper budget justifications and responsibility determinations. Senior AID officials indicated that these explanations do not excuse the lack of adherence to internal controls.

Monitoring of Grant Progress Was Limited

AID often did not monitor grant recipients against specific performance indicators. AID guidance recommends that performance benchmarks and target dates be developed to measure each grantee's progress. However, grants accounting for only 15 percent of AID/Washington's total award dollars had measurable, time-specific benchmarks for the major grant objectives and documented evidence of progress against them. In Indonesia, the comparable figure was 9 percent. In 1992, AID's Inspector General reported similar problems at AID missions in Bangladesh and the Philippines.

AID has several tools to monitor grant recipients, but project officers indicated that time constraints and travel fund shortages hindered their monitoring efforts. Particularly in AID/Washington, these constraints prevented project officers from conducting site visits. However, AID/Washington did not delegate monitoring responsibilities to a field mission for 82 percent of its grants.

Recommendations

Because GAO found high levels of noncompliance with various AID internal control requirements concerning grants, GAO believes it is incumbent on the AID Administrator to take the necessary steps to ensure that established procedures are followed and effective internal controls are actually implemented. GAO makes a number of specific recommendations to the AID Administrator to help ensure that competition is used whenever feasible and that grant funds are adequately accounted for. (See ch. 5.) GAO recommends that the AID Administrator monitor grant recipients against measurable benchmarks and target dates. Further, GAO recommends that field missions be delegated monitoring responsibilities for AID/Washington grants implemented overseas whenever possible.

Agency Comments

In commenting on a draft of this report, AID generally agreed with the report's findings and recommendations, and it outlined corrective actions it plans to take. AID stated that while GAO found cases of substantial noncompliance with documentation requirements, it was pleased that GAO found (1) no systemic problems with AID's grant and cooperative agreement process or (2) that nothing was inherently wrong with AID's competitive process. These are AID's conclusions, not GAO's. As GAO points out in the objectives, scope, and methodology of this report, GAO did not attempt to identify or examine the adverse effects of noncompliance or explore their root causes.

Contents

Executive Summary		2
Chapter 1		12
Introduction	Overview of AID's Grant Administration Process	12
	Organizational Responsibilities	14
	Number and Value of Specific Support Grants and Cooperative Agreements	15
	Objectives, Scope, and Methodology	15
Chapter 2		18
AID Lacked	Majority of Grant Funds Were Awarded Without Competition	18
Reasonable	A Written Basis for Instrument Selection Was Not Always Prepared	20
Assurance That	Noncompetitive Award Justifications Were Not Always Prepared or Were Superficial	22
Competition Was		
Used to the Maximum		
Extent Feasible		
Chapter 3		27
Funds Accountability	Negotiated Costs Were Not Always Supported	27
Affected by Lax	Responsibility Determinations Were Not Adequately Documented	31
Application of	Promising Changes Made to AID's Financial Audits Program	35
Internal Control		
Techniques		
Chapter 4		37
Weak Performance	Measurable Benchmarks and Target Dates Were Not Consistently Used	37
Indicators and	Time Constraints and Insufficient Travel Funds Impeded Monitoring Efforts	41
Resource Constraints	Financial Integrity Act Reviews Did Not Include Key Internal Controls	44
Hindered Grant		
Monitoring		

Chapter 5		45
Conclusions and Recommendations	Recommendations	46
	Agency Comments	47
Appendixes	Appendix I: Competition Data	48
	Appendix II: Budget Justifications and Responsibility Determinations	51
	Appendix III: Monitoring Data	54
	Appendix IV: Financial Integrity Act Internal Controls	56
	Appendix V: Comments From the Agency for International Development	57
	Appendix VI: Major Contributors to This Report	60
Tables	Table I.1: Competitive and Noncompetitive Awards by Location for Grants Active in Fiscal Year 1991	48
	Table I.2: Competitive and Noncompetitive Awards to U.S. and Non-U.S. Organizations by Location for Grants Active in Fiscal Year 1991	49
	Table I.3: Documentation of Rationale for Instrument Selection by Location for Grants Active in Fiscal Year 1991	50
	Table I.4: Documentation of Noncompetitive Award Justifications by Location for Grants Active in Fiscal Year 1991	50
	Table II.1: Documentation of Budget Justifications by Location for Grants Active in Fiscal Year 1991	51
	Table II.2: Documentation of Grant Officer Responsibility Determinations by Location for Grants Active in Fiscal Year 1991	52
	Table II.3: Primary Source Data in Responsibility Determinations by Location for Grants Active in Fiscal Year 1991	53
	Table III.1: Performance Benchmarks and Documented Progress for Major Grant Objective by Location for Grants Active in Fiscal Year 1991	54
	Table III.2: Performance Benchmarks and Documented Progress for Any Grant Objective by Location for Grants Active in Fiscal Year 1991	55
Figures	Figure 2.1: AID's Competitive and Noncompetitive Awards for Grants Active During Fiscal Year 1991	19
	Figure 2.2: Documentation of Rationales for Instrument Selection by Location for Grants Active During Fiscal Year 1991	22

Figure 2.3: Documentation of Noncompetitive Award Justifications by Location for Grants Active During Fiscal Year 1991	24
Figure 3.1: Documentation of Budget Justifications by Location for Grants Active During Fiscal Year 1991	29
Figure 3.2: Documentation of Grant Officer Responsibility Determinations by Location for Grants Active During Fiscal Year 1991	33
Figure 4.1: Performance Benchmarks and Documented Progress for Major Grant Objective by Location for Grants Active in Fiscal Year 1991	39
Figure 4.2: Performance Benchmarks and Documented Progress for any Grant Objective by Location for Grants Active in Fiscal Year 1991	40

Abbreviations

AID	Agency for International Development
GAO	General Accounting Office
OMB	Office of Management and Budget

Introduction

The Agency for International Development (AID) distributes project assistance primarily through direct contracts, host country-awarded contracts, and grants.¹ During fiscal year 1991, AID had \$4.8 billion in active grants with over 900 private voluntary organizations, educational institutions, and other nonprofit organizations.² AID refers to these grants as “specific support grants” because they are intended to support clearly defined programs established or proposed by the recipients. These grants are made centrally in Washington, D.C., and by overseas AID missions, depending on the source of agency funding, the location of the grantee, and the grantee’s desire to pursue a country-specific or regional program.³

Overview of AID’s Grant Administration Process

The Accounting and Auditing Act of 1950 requires that agency heads establish and maintain effective systems of internal controls. The Federal Managers’ Financial Integrity Act of 1982 requires that agency internal control systems be periodically evaluated and that the heads of executive agencies report annually on their systems’ status.

The objectives of internal control systems are to provide management with reasonable assurance that (1) obligations and costs comply with applicable laws; (2) assets are safeguarded against waste, loss, unauthorized use, and misappropriation; (3) revenues and expenditures are recorded and accounted for properly; and (4) programs are efficiently and effectively carried out in accordance with applicable laws and management policy. AID has developed a series of internal controls governing the award and monitoring of grants to nonprofit organizations. These controls include (1) rationales for using a grant as the implementing instrument, (2) noncompetitive award justifications, (3) budget justifications, (4) determinations of recipient responsibility, (5) performance benchmarks, and (6) interim and final cost audits.

Consistent with the Comptroller General’s “Standards for Internal Controls in the Federal Government,” AID guidance requires that the documentation of transactions and other significant events be complete and accurate. For example, AID guidance requires the grant officer to

¹Direct contracts and host country contracts were the subject of two earlier GAO reports: *Foreign Assistance: AID Can Improve Its Management of Overseas Contracting* (GAO/NSIAD-91-31, Oct. 5, 1990) and *Foreign Assistance: AID Can Improve Its Management and Oversight of Host Country Contracts* (GAO/NSIAD-91-108, May 29, 1991).

²A small fraction of these awards was made to for-profit organizations. This report only refers to AID’s use of nonprofit organizations.

³Specific support grants are managed under AID Handbook 13. These grants are distinct from bilateral grants to host governments, which are managed under Handbook 3.

prepare a budget justification for each grant and include it in a memorandum of negotiation.

Federal Grant Guidance Is Limited

The Federal Grant and Cooperative Agreement Act of 1977 established governmentwide criteria for determining when to use a contract, grant, or cooperative agreement as the proper implementing instrument. As stated in the act, uncertain definitions result in operational inconsistencies, confusion, inefficiency, and waste for recipients as well as executive agencies. To help correct this problem, the act established the following definitions:

- A contract should be used whenever the principal purpose of the instrument is the acquisition, by purchase, lease, or barter, of property or services for the direct benefit or use of the federal government.
- A grant or cooperative agreement should be used whenever the principal purpose of the instrument is to transfer money, property, services, or anything of value to a recipient to accomplish a public purpose of support or stimulation authorized by federal statute.
- A cooperative agreement should be used instead of a grant when substantial involvement is anticipated between the agency and the recipient during the performance period.

Explicit governmentwide guidance on how to award and manage grants is limited because a grant is viewed as a conditional “gift” to an organization in support of an agreed upon purpose. For example, neither the act nor Office of Management and Budget (OMB) guidance address the issue of how assistance instruments should be awarded. Federal agencies, however, must comply with OMB Circular A-110, which established uniform administrative requirements for grants with domestic organizations of higher education, hospitals, and other nonprofit organizations.⁴ This circular covers a number of oversight requirements, including financial reporting, cost sharing and matching, monitoring and reporting program performance, and close-out procedures. Other OMB circulars deal with related issues, such as federal cost principles and audit requirements. AID Handbook 13 (Grants) incorporates these procedures and related internal guidance for use by project and contracting/grant officers.⁵

⁴AID policy extends OMB Circular A-110 to non-U.S. organizations to the extent practicable.

⁵Contracting officers in AID also serve as grant officers.

Organizational Responsibilities

Grant award and oversight responsibilities are shared between AID project officers and grant officers. Project officers are responsible for (1) justifying noncompetitive awards; (2) the review process for evaluating proposals; and (3) monitoring the grantee's progress through performance reports, financial reports, and site visits.

Grant officers (1) review decisions on using a grant as the implementing instrument, (2) review and approve written justifications for noncompetitive awards, (3) determine that prospective grantees have the capability to manage an AID grant, (4) negotiate and award grant agreements, and (5) arrange for instrument close-out and audit at the conclusion of the grant.

In AID/Washington, all grant officers are located in the Office of Procurement, which, as of March 1993, had 12 grant officers and 44 contracting specialists. Each overseas mission and field office functions as an independent contracting office, subject to the limitations of the contracting authority of its principal officers. As of March 1993, 41 grant officers were assigned to 24 of AID's overseas missions and offices. In missions without grant officers, the mission director or another executive officer is delegated the authority (within specified dollar limits) to award grants. Regional grant officers are available to assist such individuals with any technical questions.

AID Handbook 13 gives all mission directors the authority to execute grants not exceeding \$5 million and cooperative agreements not exceeding \$100,000 without the formal involvement of a grant officer. Mission directors may also apply to AID/Washington for ad hoc delegations for amounts above their signature authority. In both instances, mission directors may request that project staff prepare all required documentation on their behalf.

Although project and grant officers are charged with the principal responsibility for awarding and monitoring grants, a number of other AID officials are also involved.

- Controllers and their staffs review cost vouchers and conduct pre- and post-award financial reviews of the recipients' financial and accounting controls.
- Regional or local legal advisers are available to review the choice of implementing instrument, noncompetitive award justifications, and the grant agreement itself.

- Inspector General staff in Washington, D.C., and regional offices help schedule required audits. In addition, Inspector General staff periodically conduct broad-based systems reviews in AID/Washington and selected missions to determine whether AID's policies are being effectively implemented.

Number and Value of Specific Support Grants and Cooperative Agreements

According to AID data, AID had approximately 2,000 active grants with about 900 organizations during fiscal year 1991. The total award value of these grants was \$4.8 billion. From this total, 72 percent of all grant funds were distributed by AID/Washington bureaus and offices, while the balance of funds was awarded by the overseas missions and offices.

AID grants support a variety of important development activities and vary significantly in size. For example, one grant in Bolivia provided the recipient \$20,000 to develop a training and follow-up program for traditional midwives in La Paz and rural areas. In contrast, one AID/Washington grant provided \$20.6 million to support the recipient's program to furnish management and technical expertise to businesses in Central and Eastern Europe.

Objectives, Scope, and Methodology

Senator Christopher Dodd and Representative Sam Gejdenson requested that we review AID's policies and procedures for administering specific support grants to private voluntary organizations, educational organizations, and other nonprofit organizations. Our review focused on the application of AID's system of internal controls for Handbook 13 grants. Our objectives were to determine whether AID had effective controls and procedures to (1) maximize competition in grant awards, (2) ensure the proper use of grant funds, and (3) monitor grantee performance. We did not attempt to identify or examine the potential adverse effects of noncompliance with AID's system of internal controls, nor did we explore the root causes of noncompliance. These root causes are examined in our recently issued general management study of AID.⁶

Our review focused on grants that were active at any point during fiscal year 1991. We excluded grants to public international organizations because a limited number of Handbook 13 requirements apply to such grants. We excluded bilateral grants with foreign governments managed

⁶Foreign Assistance: AID Strategic Direction and Continued Management Improvements Needed (GAO/NSIAD-93-106, June 11, 1993).

under Handbook 3 and grants managed under policies and procedures developed by the Office of American Schools and Hospitals Abroad.

Our review was conducted at AID/Washington and at AID field missions in Bolivia, Egypt, El Salvador, and Indonesia. These missions were selected because they had a large number of grants and because the cognizant grant and project officers were collocated in these missions. These four missions accounted for nearly 20 percent of all mission-awarded funds for specific support grants active in fiscal year 1991. We excluded two large-dollar missions (Bangladesh and the Philippines) because the AID Inspector General was conducting audits of grant administration at these missions at the time of our review. We reviewed the Inspector General's final audit reports for each of these missions and extracted relevant data to supplement the information collected for this report.

For both AID/Washington and the four overseas missions we visited, we collected data on individual grants that met our selection criteria⁷ in two parts. First, we mailed a basic questionnaire to cognizant project officers and grant officers. Second, we collected more detailed data for a subsample of grants using a supplemental questionnaire, a request for certain key documents, a standardized personal interview, and a series of data collection instruments to record our analysis of selected documents. All forms were pretested with AID/Washington and mission personnel.

Under part one, we received 260 completed questionnaires from grant and project officers located in AID/Washington and the overseas missions we visited. In AID/Washington, part one questionnaires were completed for a cost-weighted probability sample of 114 grants.⁸ Part one questionnaires were completed for all 146 eligible grants in the four missions we visited. Under part two, questionnaire and supplementary data was obtained for 155 of the 260 grants examined in part one. Part two data was collected for a cost-weighted probability sample of 49 AID/Washington grants; all 83 eligible grants in Bolivia, Egypt, and El Salvador; and a cost-weighted probability sample of 23 agreements in Indonesia. AID/Washington data are subject to sampling error. Sampling errors are provided for values cited in the text of the report.

⁷Handbook 13 grants (excluding Handbook 13 grants to public international organizations) that were active at any point during fiscal year 1991.

⁸All AID/Washington samples were stratified by cost. This sample design increased the probability that large-dollar grants would be included in our sample and allowed us to project our results to the full universe of 1,037 AID/Washington grants that met our selection criteria.

We interviewed senior AID officials from the Office of Procurement, the Procurement Planning and Evaluation Staff, and selected bureaus and offices in Washington. In each mission we visited, we interviewed the Mission Director, Controller, grant officers, and project officers. We reviewed documents, including agency handbook guidance and related policy statements such as Contract Information Bulletins, Office of Procurement Administrative Memorandums, and mission orders. We also reviewed audit reports, internal control assessments, and procurement certification reviews conducted by AID's Procurement Planning and Evaluation Staff. We conducted our review from February 1992 through December 1992 in accordance with generally accepted government auditing standards.

AID Lacked Reasonable Assurance That Competition Was Used to the Maximum Extent Feasible

The Federal Grants and Cooperative Agreement Act, OMB guidance, and AID guidance encourage the use of competition in grant awards whenever feasible. AID lacked reasonable assurance that competition was used to the maximum extent possible since agency project staff frequently failed to prepare written justifications for noncompetitive awards or provided superficial justifications of limited value. We also noted that grant officers did not always prepare a written statement documenting the rationale for using a grant as the implementing instrument. This increased the probability that grants were sometimes used solely to avoid the more stringent competition requirements associated with contracts. Responsible AID officials cited alternative oversight activity as the primary basis for failing to prepare a rationale for instrument selection, but senior AID officials indicated that this did not excuse the lack of adherence to agency handbook guidance.

Majority of Grant Funds Were Awarded Without Competition

Competition in discretionary assistance programs begins with soliciting eligible applicants. A noncompetitive award may be initiated on a sole-source basis if AID officials believe that only one institution is pursuing a development activity of interest to the agency. A noncompetitive award may also be given if AID receives an unsolicited proposal. In both cases, AID officials review grant proposals without comparing them to competing ideas or applicants. AID handbook guidance requires that competitive grants be evaluated against technical criteria set out in an invitation for applications. The review process for noncompetitive grants is not as rigorous and does not require the use of written evaluation criteria.

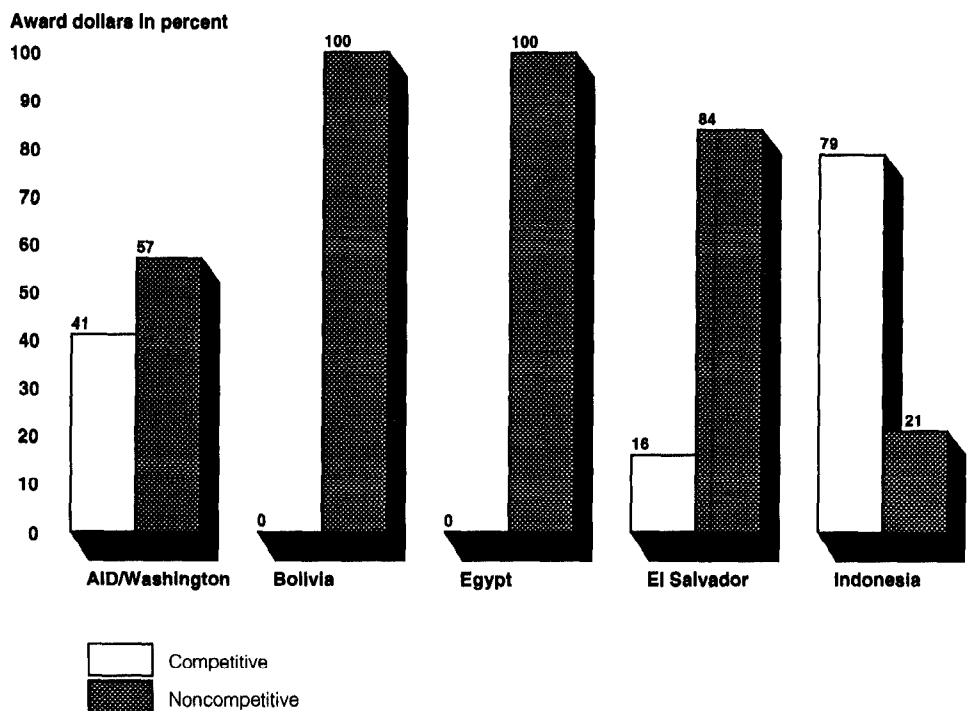
Competition seeks to ensure that all qualified organizations have an equal opportunity to receive a federal grant award. This helps ensure that the government maximizes the use of grant funds. A noncompetitive award is more vulnerable to abuse since agency officials have a greater opportunity to choose preselected applicants. Accordingly, agency guidance restricts the use of noncompetitive awards to a limited number of circumstances where the value of the grant proposal outweighs the objective to use competition whenever possible.

In AID/Washington, grants were frequently competed, but three of the four missions we visited usually used noncompetitive awards. Figure 2.1 shows by location the percentage of grant funds that were awarded on a competitive versus a noncompetitive basis. As indicated, 57 percent of AID/Washington grant funds (valued at \$1.6 billion) were awarded without

Chapter 2
AID Lacked Reasonable Assurance That
Competition Was Used to the Maximum
Extent Feasible

competition.¹ Comparable data for the missions we visited ranged from 21 percent in Indonesia to 100 percent in Egypt. Additional details are provided in appendix I, table I.1.

Figure 2.1: AID's Competitive and Noncompetitive Awards for Grants Active During Fiscal Year 1991



Note: Total number of grants and award dollars by location were AID/Washington (957/\$2.8 billion), Bolivia (25/\$65 million), Egypt (29/\$69 million), El Salvador (29/\$256 million), and Indonesia (63/\$24 million).

According to AID's Competition Advocate, two reasons explain why AID/Washington awarded a larger percentage of its grants on a competitive basis than did most of the overseas missions we visited. First, AID/Washington has several ongoing programs that require that all awards be made on a competitive basis. These include the Collaborative Research Support Program, which supports long-term university food research. Second, missions deal more frequently with non-U.S. recipients where the level of competition is generally lower. According to AID officials, less

¹Percentage is between 54.1 percent and 60.8 percent, and the dollar amount is between \$1.54 billion and \$1.73 billion at the 95-percent confidence level.

competition is found among non-U.S. institutions because (1) the pool of qualified applicants is normally quite small, (2) local institutions sometimes cannot handle the administrative demands of the competitive award process, (3) AID's program objectives may be to strengthen the capabilities of a weak organization rather than select the best organization available, and (4) non-U.S. organizations often receive small-dollar grants that are less likely to be competed.

The AID missions we visited awarded a substantially greater percentage of their grant funds to non-U.S. organizations than did AID/Washington. We estimate that less than 1 percent of AID/Washington grant funds were awarded to non-U.S. institutions. The comparable figures for the missions we visited ranged from 30 percent in Egypt to 61 percent in El Salvador. In AID/Washington, El Salvador, and Indonesia, between 40 percent and 79 percent of grant funds to U.S. organizations were awarded competitively. In Bolivia and Egypt, the comparable figures were 1 percent and 0 percent, respectively. Additional details are provided in appendix I, table I.2.

A Written Basis for Instrument Selection Was Not Always Prepared

AID guidance states that the use of a grant as the implementing instrument should be supported by a written rationale. We found that grant officers in two countries we visited—Bolivia and Egypt—and at AID/Washington usually followed this guidance, whereas grant officers in El Salvador and Indonesia never did. According to senior AID Office of Procurement officials, it is important to have a grant officer review instrument selection decisions made by project staff. They said that federal and AID guidance on the use of grants versus contracts is somewhat ambiguous and subject to interpretation. Also, one official indicated that the less rigorous competition requirements applicable to assistance instruments and the time-consuming nature of the competitive award process create an incentive for project staff to use an assistance instrument where a contract would be more appropriate.²

One of the basic purposes of the Federal Grant and Cooperative Agreement Act was to distinguish grant and cooperative agreement relationships from contract relationships. According to AID's Competition

²AID internal reviews have raised the issue of instrument selection as an area of concern. A July 1991 action memorandum prepared by AID's Procurement Policy Advisory Panel stated that Handbook 13 grants are sometimes used when a contract would be more appropriate. In addition, the 1991 procurement certification review conducted by AID's Procurement Policy and Evaluation Staff highlighted the issue of instrument selection as an area of concern for the Office of Procurement in Washington, D.C. A report on this review indicated that there were cases in which assistance instruments were used where the purpose of the activity was acquisition.

Advocate, this is an important distinction because contracts have certain benefits over grants. These advantages include (1) a greater likelihood that the award will be made competitively, (2) recourse to legal remedies for nonperformance, (3) the ability to define the expected work product in great detail, and (4) the authority to provide extensive oversight to ensure that contract deliverables meet all required terms and specifications.

To help guard against the inappropriate use of a grant, grant officers review and approve instrument selection decisions made by project staff. Preliminary decisions on instrument type are normally made by project design committees that include staff from the project development office, technical office, Controller's office, and grants office.³

To initiate the award process, a project officer must, among other tasks, prepare a project implementation order that authorizes the grant officer to execute the proposed funding action as a contract or grant. The project officer should attach a statement to the implementing order that describes the activity to be funded. Based on this project description, the grant officer determines what type of funding instrument should be used. According to AID handbook guidance, the grant officer's rationale should be documented in a memorandum of negotiation.

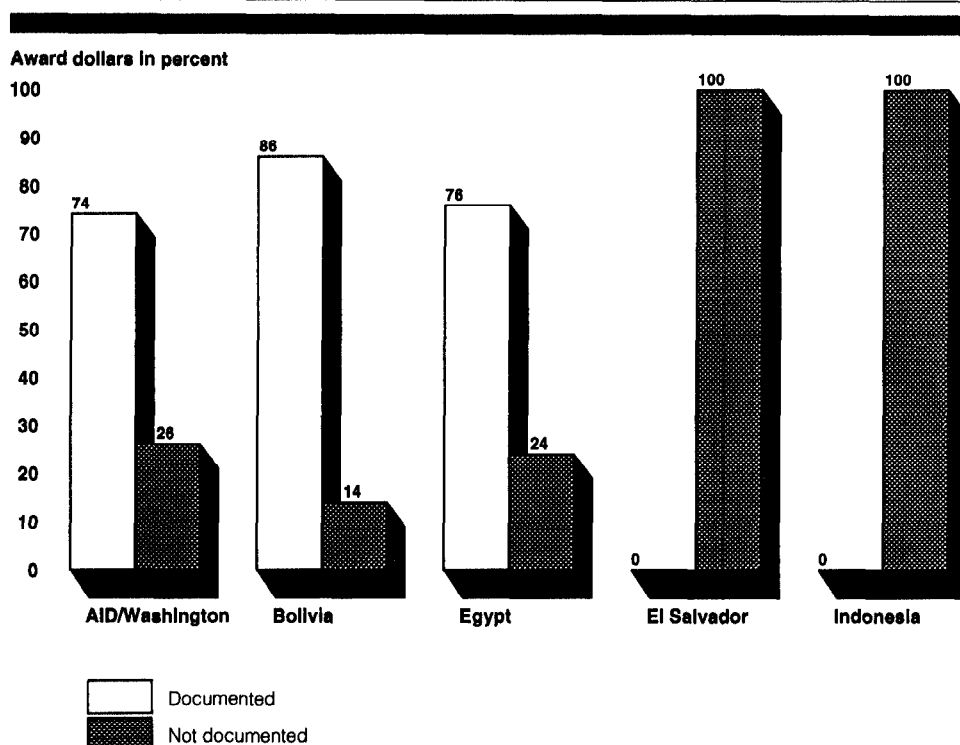
The rationale for instrument selection should appear in a memorandum of negotiation.⁴ However, we asked grant officers to provide any document they believed contained a written rationale for instrument selection. As shown in figure 2.2, 26 percent of AID/Washington grants funds (valued at \$755 million) were not covered by a statement on instrument selection.⁵ Comparable figures for the missions we visited ranged from 14 percent in Bolivia to 100 percent in El Salvador and Indonesia. Additional details are provided in appendix I, table I.3.

³An AID General Notice dated December 1991 requires that grant officers be involved in the project planning process by clearing key planning documents such as the Project Paper. This action was prompted by a Procurement Policy Advisory Panel recommendation that contracting staff be involved earlier in the procurement planning process.

⁴Handbook 13 states that a memorandum of negotiation should be prepared for each grant award. The memorandum should include, among other things, a rationale for choice of instrument, a discussion of the budget and a justification for all cost elements, and a discussion of the recipient's management and financial capabilities. The rationale for instrument selection requires only a brief statement that the grant meets the basic criteria applicable to assistance instruments. Given the limited amount of analysis and documentation required to implement this control, we chose not to evaluate the quality of the prepared statements we were able to locate.

⁵Percentage is between 24 and 29 percent, and the dollar amount is between \$683.1 million and \$826.3 million at the 95-percent confidence level.

Figure 2.2: Documentation of
Rationales for Instrument Selection by
Location for Grants Active During
Fiscal Year 1991



The senior grant officer in El Salvador argued that her participation on project design committees allowed her to be fully aware of the rationale for instrument selection. She added that her clearance on key planning documents provided an additional element of control. In Indonesia, the principal grant officer stated that the rationale for instrument selection was well thought out and discussed among mission officials at the competition stage—thus diminishing the need for formal documentation. AID's Competition Advocate and the Director of AID's Office of Procurement indicated that these factors do not excuse the absence of a documented rationale for instrument selection.

Noncompetitive Award Justifications Were Not Always Prepared or Were Superficial

AID guidance states that the project office should prepare a written justification for a proposed noncompetitive award. These justifications should then be reviewed by a grant officer for sufficiency. At AID/Washington and three of the four missions we visited, these justifications were not always prepared. Also, the quality of prepared justifications varied widely. This was particularly the case for justifications that sought to demonstrate the grantee's proposal was "unique, innovative,

or proprietary,” or that the recipient had an “exclusive or predominant” capability to perform the proposed grant activity.

Because the government wants to receive the maximum benefit for its grant funds, AID Handbook 13 states that the requirement for competition is considered to be met when awards are made based on prescribed eligibility requirements and selection procedures for specific assistance programs.⁶ For all other grants, AID guidance permits a noncompetitive award when

- the project officer certifies that the proposal was not solicited by AID and is unique, innovative, or proprietary;
- one recipient is considered to have exclusive or predominant capability, based on (1) experience, specialized facilities, or technical competence or (2) an existing relationship with the cooperating country or beneficiaries;
- amendments are made to existing assistance awards;
- follow-on assistance awards are intended to continue or further develop an existing relationship; and
- other circumstances are determined to be critical to the objectives of the foreign assistance program.

Project staff must justify noncompetitive awards in a memorandum attached to the project implementation order. The justification should be based on one or more of the exceptions listed above and should provide sufficient evidence to clearly show why the exception to competition is proper. The grant officer is responsible for reviewing this memorandum and deciding whether a noncompetitive award is warranted.

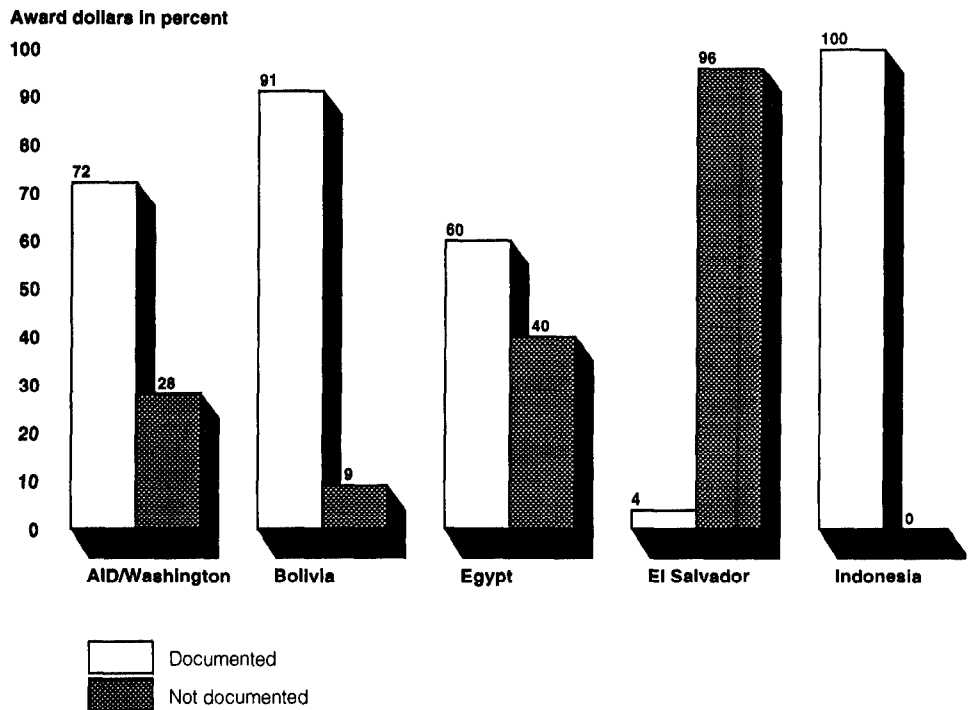
Figure 2.3 shows the percentage of noncompetitive grants funds that were covered by a written justification. AID guidance states that the justification should be attached to the project implementation order. However, we asked AID officials to provide us any other document that contained a justification. As indicated, 28 percent of noncompetitive AID/Washington grant funds (valued at \$443 million) were not covered by any written justification.⁷ In Indonesia, written justifications for noncompetitive grant

⁶The handbook lists five specific grant programs that fall in this category: (1) title XII university strengthening grants; (2) title XII program support grants; (3) title XII collaborative research support program grants; (4) centrally funded grants and cooperative agreements to registered private voluntary organizations and cooperatives based on prescribed eligibility requirements and selection procedures outlined in an invitation for applications; and (5) mission-funded grants and cooperative agreements to registered private voluntary organizations and cooperatives for umbrella programs, field programs, institutional development/strengthening, and collaboration between the two groups.

⁷Percentage is between 25.9 percent and 30.6 percent, and the dollar amount is between \$405.9 million and \$479.9 million at the 95-percent confidence level.

awards were always prepared, whereas in El Salvador they were almost never prepared. Additional details are provided in appendix I, table I.4.

**Figure 2.3: Documentation of
Noncompetitive Award Justifications
by Location for Grants Active During
Fiscal Year 1991**



AID Guidance Does Not Define Key Terms

AID handbook guidance states that justifications should provide sufficient evidence to clearly show that the exception to competition was proper. Some of the justifications we reviewed cited the “unique, innovative, or proprietary” nature of the prospective grantee’s proposal or the organization’s “exclusive or predominant” ability to perform the activity. However, they provided no specific evidence to support such broad statements; rather, they merely repeated AID handbook guidance. Other justifications for noncompetitive grants contained comparatively more substantial information.

In AID/Washington, grants accounting for \$562 million had noncompetitive award justifications based on one of the above justifications.⁸ This amount represented 36 percent of the AID/Washington grant funds awarded

⁸Dollar amount is between \$471.7 million and \$651.7 million at the 95-percent confidence level.

noncompetitively.⁹ Comparable data for the missions was the following: Bolivia, 54 percent; Egypt, 13 percent; and Indonesia, 61 percent. Some justifications provided little more than references to or repetition of handbook language, while others provided convincing descriptions of the grantee's track record. For example, one justification only stated that "this agreement meets requirements for an exception to competition as outlined in Handbook 13, 2.B.3.a." In another case, the justification stated that the grantee had "unique and innovative capacities to perform activities aimed at controlling vitamin A deficiency in Africa." However, it did not provide any further evidence to justify that statement. Moreover, the justification indicated that many different organizations have assisted in implementing AID vitamin A deficiency activities around the world.

Senior AID officials stressed the importance of preparing adequately supported justifications. The dollar impact of such unsubstantiated noncompetitive awards can go far beyond the original grant amount for a couple of reasons. First, grant amendments can increase the funds ceiling, and second, follow-on grants may be awarded to continue or further develop existing assistance relationships.¹⁰ One senior AID Office of Procurement official stated that grant amendments can increase the grant's original value several times over and that follow-on grants can double or even triple the grant's duration and increase overall grant funding by a similar amount.

Potential Loophole in AID Handbook Guidance

Handbook 13 states that the competition requirement is considered to be met when awards are made according to eligibility requirements and selection procedures for special assistance programs. Included in this group are mission-funded grants and cooperative agreements with registered private voluntary organizations for umbrella programs, field programs, and institutional strengthening. According to AID officials, these grants may be awarded without considering alternative sources and without the need to prepare a noncompetitive award justification.

⁹Percentage is between 30.1 percent and 41.5 percent at the 95-percent confidence level.

¹⁰About 27 percent of AID/Washington's grant funds were awarded on the basis of a follow-on justification. Comparable figures for the missions ranged from 0 to 39 percent. Data was not readily available to determine what percentage of these follow-ons was originally based on a justification that was not substantiated.

Officials from AID's Procurement Policy and Evaluation Staff were not certain why this particular provision had been included in the handbook and could not explain why these types of awards should not require written noncompetitive award justifications. Other AID officials we spoke with stated that they could see no clear rationale for exempting such grants from the requirement for competition.

Funds Accountability Affected by Lax Application of Internal Control Techniques

AID seeks to ensure full accountability for grant funds through the use of several key internal controls, including (1) a written justification of the grantee's proposed budget, (2) a written determination that the applicant has the required management and financial capabilities, and (3) interim and final audits of incurred costs. We found that written budget justifications were often not prepared or were done poorly. Written responsibility determinations were also not routinely done or lacked evidence that primary sources of information were considered in assessing the prospective grantee's capabilities. Responsible AID officials cited inadequate staffing and year-end workload demands as contributing to the lack of documented budget justifications and responsibility determinations. Senior AID officials indicated that these explanations did not excuse the lack of adherence to agency internal control policies. AID's past problems in providing adequate financial audit coverage continue; however, the agency has taken steps to address these problems.

Negotiated Costs Were Not Always Supported

AID lacked adequate assurance that negotiated costs were reasonable. Grant officers at AID/Washington and the missions in Bolivia and Egypt usually prepared a written justification of budgeted costs as required; however, grant officers in El Salvador and Indonesia frequently did not prepare such justifications. The quality of budget justifications, even when prepared, varied from highly detailed examinations of all pertinent cost data to cursory statements that costs had been reviewed and were acceptable. Senior AID procurement officials had differing views over what level of detail is required for a budget justification.

AID guidance states that project and grant officers should develop a budget estimate and a budget justification as part of the grant award process. The guidance requires that project staff prepare a detailed and reasonable budget estimate that sets the grant ceiling for cost negotiations. This budget estimate is to be attached to the project implementation order that is forwarded to the grant officer.

According to the Director of AID's Office of Procurement, the budget estimate is to be the starting point for the grant officer's cost analysis. He indicated that an adequate analysis allows grant officers to establish a firm negotiating position regarding any adjustments made to the grant budget. He stated that grant officers should (1) look for inconsistencies between the work plan, budget, and individual cost elements, and (2) review unit cost data for such items as salaries, equipment, travel, and overhead rates. According to AID handbook guidance, these costs should be evaluated for

reasonableness and allowabilty in accordance with applicable cost principles.¹

According to a senior AID Office of Procurement official, a cost analysis normally results in a working file that includes all the cost data and analyses required to negotiate the grant agreement. Once negotiations are concluded, AID handbook guidance requires the grant officer to prepare a memorandum of negotiation, which includes a budget justification covering all cost elements.

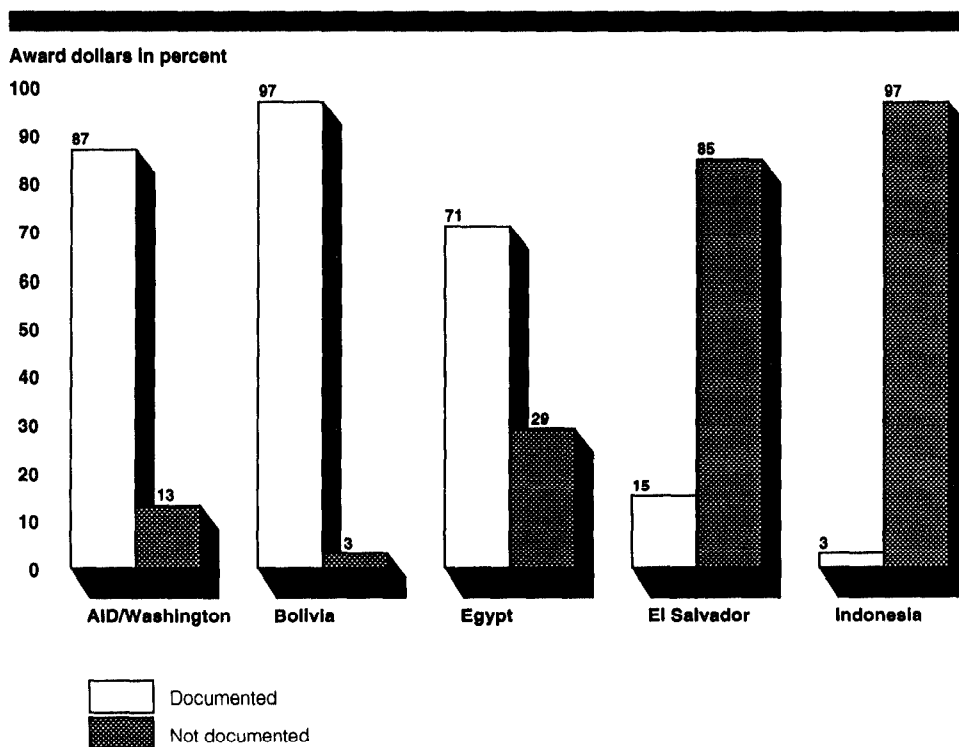
In three of the four missions visited, AID officials could not provide budget justifications in a significant number of instances. Figure 3.1 shows the percentage of grant funds in our sample that did not have a written justification. Although the budget justification should appear in a memorandum of negotiation, we asked grant officers to provide us any document they believed contained the budget justification for negotiated costs.

As indicated, 13 percent of AID/Washington grant funds (valued at \$362 million) were not covered by a written budget justification.² The comparable figures for the missions we visited ranged from 3 percent in Bolivia to 85 and 97 percent in El Salvador and Indonesia, respectively. Additional details are provided in appendix II, table II.I.

¹Principles governing the reasonableness and allowability of costs are contained in OMB Circular A-21 for educational institutions and A-122 for nonprofit organizations.

²Percentage is between 11.4 percent and 14.0 percent, and the dollar amount is between \$324.7 and \$398.9 million at the 95-percent confidence level.

Figure 3.1: Documentation of Budget Justifications by Location for Grants Active During Fiscal Year 1991



The principal grant officers in El Salvador and Indonesia cited staffing shortages and the large number of year-end funding actions to explain their general failure to prepare memorandums of negotiation and related analyses such as budget justifications.³ AID's Competition Advocate and the Director of AID's Office of Procurement indicated that these factors do not excuse grant officers from preparing a memorandum of negotiation. The Competition Advocate stated that it is incumbent upon grant officers to formally notify management when internal controls cannot be fully implemented due to staffing shortages. He added that options exist to help correct this situation. For example, additional local employees can be trained to assist grant officers as contracting specialists.

Regarding year-end workload demands, the Competition Advocate stated that memorandums of negotiation could be prepared well after the close of the fiscal year, if needed. He pointed out that these memorandums bring

³A principal grant officer in Indonesia told us that memorandums of negotiation were normally not prepared but that there were notes in the grant file describing how negotiated budgets were reached. While we found various budget-related notes and correspondence in the files, they did not indicate who prepared them or whether budgeted costs were reasonable and allowable.

discipline to the grant award process and provide "institutional memory" in the event of turnover in project or grant officer personnel.

The Quality of Budget Justifications Varied Widely

Our review of budget justifications revealed that grant officers used a wide array of documentation styles ranging from a simple statement that costs had been reviewed to highly detailed analyses of all relevant cost data. For example, a budget justification for a \$7.5-million AID/Washington grant stated that the prospective recipient had provided a "fairly detailed breakdown of costs for the first year of the grant" but that "costs for the second and third year of the agreement were not detailed." The grant officer concluded that the first year costs appeared to be reasonable but did not provide any evidence as to how he reached that conclusion. Moreover, he did not address the reasonableness and allowability of the second and third year costs.

In contrast, the budget justification for a \$4.2-million population policy and family planning grant awarded by AID/Washington included a detailed description of each cost element in the recipient's budget. For example, to document his conclusion that salary costs were both reasonable and allowable, the grant officer (1) listed each funded position, (2) estimated the level of work for each position, (3) certified that applicable salary limitations had not been exceeded, (4) cited a discussion with the recipient's controller to show that all salary charges followed the recipient's policies and procedures, and (5) referred to the availability of a bio-data sheet for the project coordinator.

In the absence of explicit handbook guidance, Office of Procurement officials had differing views on the appropriate level of detail for a budget justification. One official argued that a cost justification should be a stand-alone document that provides sufficient cost data and analysis. According to AID's Competition Advocate, some grant officers believe that their signature alone should be enough to certify that they have reviewed the costs. Another official told us that each budget element should be discussed and the grant officer's basis for accepting the grantee's proposed costs should be briefly documented.

A recent report from AID's Office of the Inspector General⁴ and agency procurement certification reviews also indicate that inadequate budget justifications are a significant problem. An Inspector General audit in

⁴Audit of USAID/Bangladesh's Controls Over Grants and Cooperative Agreements (Report No. 5-388-92-11, Aug. 14, 1992).

Bangladesh stated that "while all five agreements reviewed contained a negotiation memorandum stating that the recipients' proposed costs were reasonable, the basis for those conclusions was not documented in the agreement file and, in many instances, we do not believe sufficient analyses were made of the proposed cost elements." The Inspector General concluded that AID/Bangladesh did not have adequate assurance that over \$14 million in proposed costs were both reasonable and allowable.

This issue was also raised in connection with the annual procurement certification reviews conducted by the Office of Procurement Policy and Evaluation. For example, the 1991 certification review of the Office of Procurement showed that about 15 percent of the files reviewed had no negotiation memorandum discussing cost or price in the file and 30 percent had negotiation memorandums, but cost or price was inadequately supported.⁶

Responsibility Determinations Were Not Adequately Documented

Contrary to AID guidance, grant officers did not always prepare written responsibility determinations regarding the prospective grantee's management and financial capabilities. Such documentation was never prepared in El Salvador and Indonesia. In addition, a majority of the responsibility determinations we examined did not provide sufficient evidence that a thorough review of the grantee's capabilities had been made.

AID Handbook 13 states that to be eligible to receive a grant, a potential recipient must satisfy AID that it can manage the program and provide financial accountability. The recipient must demonstrate potential or actual management ability and the capacity to plan and implement programs in the recipient's field of expertise. Furthermore, the recipient's accounting, record-keeping, and overall financial management system must meet the standards set forth in AID Handbook 13, which are taken from OMB Circular A-110. Supplementary instructions issued by AID's Office of Procurement state that "the responsibility determination is one of the most important parts of contract/assistance award preparation and that most performance failures can be attributed to one of the areas covered by this determination."

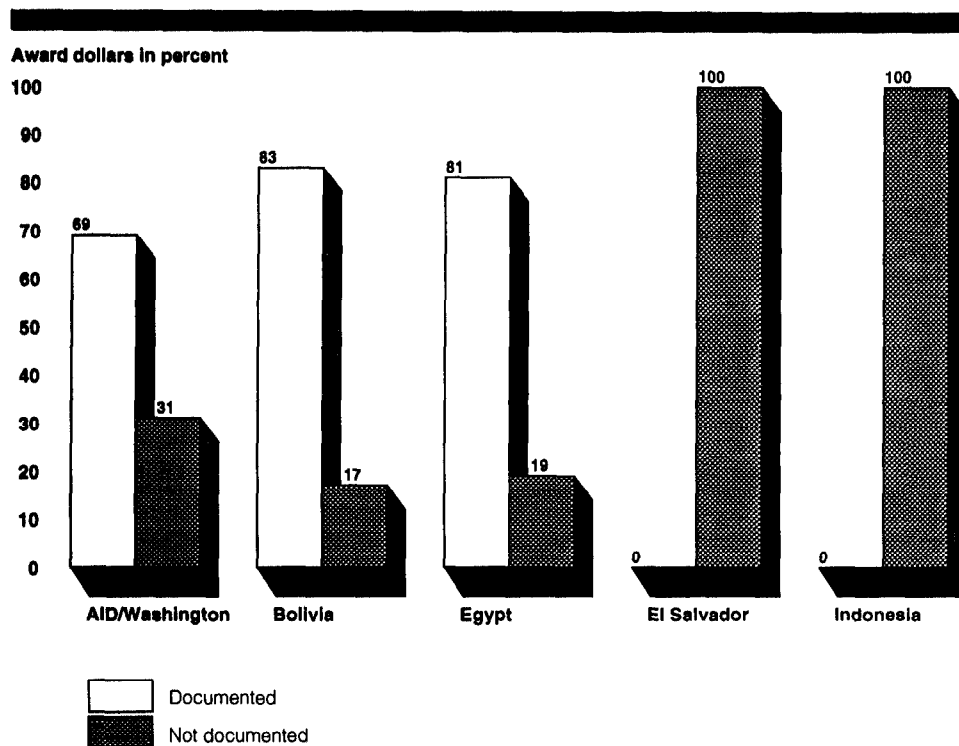
⁶This certification was based on a review of 125 randomly selected acquisition and assistance actions executed by the Office of Procurement. This was about an 8-percent sample of AID/Washington awards active as of October 1, 1990.

To determine whether all relevant standards have been met, AID guidance states that the grant officer may conduct a desk survey or establish a formal survey team consisting of representatives from the cognizant Regional Inspector General Office, the sponsoring technical office, and the grant office. The grant file should contain documentation obtained from the recipient and a memorandum of negotiation that includes a discussion of the rationale for determination of responsibility.

Figure 3.2 shows the percentage of grant funds that had a written responsibility determination prepared or approved by the grant officer. As indicated, 31 percent of AID/Washington grant funds (valued at \$889 million) were not covered by any written responsibility determination.⁶ Comparable data for the missions we visited ranged from 17 percent in Bolivia to 100 percent in El Salvador and Indonesia. Additional details are provided in appendix II, table II.2.

⁶Percentage is between 28.7 percent and 33.7 percent, and the dollar amount is between \$817.0 million and \$961.4 million at the 95-percent confidence level.

Figure 3.2: Documentation of Grant Officer Responsibility Determinations by Location for Grants Active During Fiscal Year 1991



AID officials stated that the absence of a written responsibility determination did not always mean that no pre-award survey work was conducted. For example, while the AID mission in El Salvador had no written responsibility determinations, the mission's controller pointed out that documented pre-award reviews had been conducted for 8 of the 29 grants we examined. However, the examples he provided us cited deficiencies in the prospective recipients' management and financial capabilities and did not contain a determination by the grant officer that the prospective recipients were responsible.

Responsibility Determinations Often Did Not Include Primary Source Data

In many instances, grant officers apparently did not consider key sources of data when preparing a responsibility determination. For example, a large number of responsibility determinations failed to mention contacts grant officers had with other officials regarding the grantee's performance on other federal awards. In June 1992, AID issued an Office of Procurement Administrative Memorandum, which supplements Handbook 13 guidance and outlines more clearly the types of primary source data that should be

considered. This supplementary guidance, however, only applies to grant officers located in AID/Washington.

Handbook 13 provides grant officers with general guidance on what elements need to be addressed in preparing a responsibility determination. It states that the grant officer should determine whether the prospective grantee has (1) adequate financial resources or the ability to obtain such resources, (2) the ability to comply with all grant conditions, (3) a satisfactory record of performance, and (4) a satisfactory record of integrity and business ethics.

We selected two data sources—first-hand knowledge or information from a knowledgeable official other than the grant officer about the grantee's past performance and prior audit reports—and determined whether they were specifically discussed in the written responsibility determinations we were able to locate. At least 57 percent of AID/Washington grant funds had a written responsibility determination that did not discuss any contacts with knowledgeable officials.⁷ The comparable data for periodic financial audit reports prepared by nonfederal auditors was 48 percent of grant funds.⁸ As shown in table II.2, we were unable to locate any written responsibility determinations in El Salvador or Indonesia. In Bolivia and Egypt, we also noted that written responsibility determinations often did not rely on primary source data. Additional details are provided in appendix II, table II.3.

The June 1992 memorandum on preparing responsibility determinations states that "some of our negotiation memoranda are not providing adequate determinations of responsibility." The memorandum discusses the importance of having reliable supporting data and the responsibility to review pertinent documentation and discuss the recipient's past performance with people who have had experience with the organization. The memorandum cites examples of original source data that should be reviewed, including audit reports, financial reports, and the list of parties excluded from federal procurement and assistance programs.

According to an AID Office of Procurement official, this memorandum only applies to AID/Washington grant officers because of AID's organizational

⁷Percentage represents the lower end of the 95-percent confidence interval.

⁸Percentage represents the lower end of the 95-percent confidence interval.

structure.⁹ He indicated, however, that courtesy copies were sent to grant officers in the field. A senior AID/Washington grant officer told us that handbook guidance should be revised to incorporate the type of information discussed in the June 1992 memo. Once incorporated into the handbook, overseas grant officers would be expected to follow it, according to this official.

Promising Changes Made to AID's Financial Audits Program

AID's past difficulties in providing adequate financial audit coverage have been well-documented by AID's Office of Inspector General, our office, outside review groups, and the agency's own internal controls evaluations under the Federal Managers' Financial Integrity Act. Partly in response to these concerns, the agency has taken steps to rectify this problem. Whether these actions will achieve this aim remains to be determined.

AID's Audit Management and Resolution Program

An AID General Notice issued in April 1992 initiated the Audit Management and Resolution Program. The program is designed to fulfill all of AID's financial audit responsibilities. Specifically, the program is designed to

- support efficient utilization of resources;
- broaden the agency's audit responsibilities to planning, implementation, and follow-up (a closed loop system);
- ensure financial accountability of development programs;
- delineate and document agency audit responsibilities;
- decentralize decision-making to the appropriate level of responsibility; and
- establish quality controls and tie performance to employee evaluation reports.

OMB Circular A-133 establishes the audit requirements for U.S. nonprofit organizations receiving federal awards.¹⁰ The circular requires recipient organizations to have an independent audit firm conduct an organizationwide financial audit at least once every 2 years, which includes reviewing transactions from major federal assistance programs. To each of the larger nonprofit institutions, OMB assigns a federal agency as the cognizant agency for monitoring audits and ensuring the resolution of audit findings that affect the programs of more than one agency.

⁹AID/Washington grant officers are normally civil service employees who report to the Director of the Office of Procurement. Overseas grant officers are foreign service employees who report directly to the mission director.

¹⁰The provisions of A-133 apply to audits of nonprofit institutions for fiscal years that began on or after January 1, 1990. Earlier fiscal years are covered by OMB circular A-110, Attachment F.

According to AID officials, AID is responsible for 400 nonprofit organizations.

Although non-U.S. firms are not specifically covered by the A-133 process, AID requires that these firms arrange for annual financial audits. In addition to such audits, AID may request a grant-specific final audit as part of the close-out process.

The program's overall development and implementation has been assigned to the agency's Management Control Review Committee. Under the program, the Office of Inspector General will no longer be responsible for tracking when financial audits are required. Instead, AID management will assume responsibility for tracking and requesting financial audits. The Inspector General will retain responsibility for reviewing completed financial audits. The Office of Procurement will be responsible for tracking the audit status of all U.S. contractors and grantees. Each mission must have a designated audit management officer to coordinate and monitor the overall audit program at the mission level. The audit management officer will report to the head of the mission's Management Control Review Committee.

Foreign Recipient Audits

The standard provisions of AID grants to foreign recipients require the recipients to contract with independent auditors acceptable to the AID Inspector General to perform annual financial audits of these agreements. Audits are only required if the recipient receives \$25,000 or more per year under an AID agreement. Subrecipients that receive \$25,000 or more per year are also required to have audits performed. In this case, the recipient and not AID is responsible for ensuring that the subrecipient's audit is adequately performed and that any audit recommendations are fully implemented.

To help implement these requirements, AID's Inspector General issued guidelines in 1991 for financial audits contracted by foreign recipients. The guidelines provide guidance to foreign recipients in selecting independent auditors and sets forth the scope of work that these auditors should follow. In addition, Regional Inspector General staff have briefed overseas missions and audit firms on these guidelines, according to mission officials.

Weak Performance Indicators and Resource Constraints Hindered Grant Monitoring

AID's ability to monitor grant recipients was limited because it did not always use specific benchmarks and target dates as recommended. Project officers indicated that their workloads and the lack of travel funds hindered monitoring efforts, particularly their ability to conduct site visits. AID/Washington project officers often did not designate field missions to assist them in monitoring AID/Washington grants implemented overseas, and AID/Washington and overseas missions did not include key internal controls in their Financial Integrity Act reviews.

Measurable Benchmarks and Target Dates Were Not Consistently Used

AID handbooks recommend that benchmark measures of progress and target dates be developed for each grant and that grantees report their progress against intermediate goals. We found, however, that AID did not consistently use this information to monitor grant recipients. AID's Inspector General has reported similar findings at AID missions in Bangladesh and the Philippines.

AID handbooks refer to several types of information that are useful for monitoring grant recipients. AID Handbook 13 states that a potential recipient should develop a grant application that provides a clear summary of what is to be accomplished; the resources, steps, and time frame required to meet objectives; and benchmark measures of progress. Generally, the recipient's program description is the document that includes these benchmarks. AID Handbook 3, Supplement A, states that every project implementing order should contain benchmarks and that program descriptions should provide clear target dates, goals, and objectives. According to Handbook 13, grant recipients should submit performance reports that present a comparison of actual accomplishments with the goals established for the period, the findings of the investigator, or both. It states further that these reports should indicate why goals were not met, when appropriate.

Although AID guidance recommends that benchmarks and target dates be documented in the grant application or program description, AID officials indicated that such information was sometimes in other documents, including work plans prepared by recipients or project status reports prepared by AID. AID officials indicated that status information was also recorded in various documents such as progress reports, site visit reports, and project status reports.

Performance Benchmarks Were Often Poorly Defined

To determine whether AID monitored grant recipients against specific performance benchmarks, we reviewed several types of information for each grant in our sample. Specifically, we asked project officers to provide documents that best described (1) the most important benchmark they used to evaluate interim progress on the major grant objective, (2) up to four other interim benchmarks for any grant objective, and (3) evidence of progress against those benchmarks.

In four of the five locations we reviewed, project staff frequently failed to establish measurable, time-specific benchmarks. For example, the project officer for a \$51-million AID/Washington grant cited “developing links of friendship between students and U.S. institutions and individuals” as an important benchmark. However, the supporting document for this “benchmark” did not contain any measures to objectively assess or verify progress. As a result of our review, the project officer advised the recipient to provide measures of progress such as the quantity of specific events scheduled and the number of students involved in each. Other grants had measurable progress indicators but no interim target dates. For example, a \$16-million AID/Washington grant had measurable benchmarks such as training 30 to 45 people and holding 8 workshops, but supporting documents did not indicate when during the 5-year grant period the training would occur or the workshops would be held.

Figure 4.1 shows how frequently there was a measurable, time-specific benchmark for the grant’s major objective.¹ Among the missions, El Salvador was the strongest in this area as project officers routinely tracked quantitative progress indicators as part of the mission’s semi-annual project reviews. The Indonesia mission was weakest in this area, and mission officials told us that they often monitored progress against end-of-grant objectives rather than interim benchmarks. However, one project officer told us that a year ago, the mission began requiring recipients to submit implementation plans that detailed how grant objectives would be accomplished.

Grants accounting for 65 percent and 40 percent of the award dollars in Bolivia and Egypt, respectively, had measurable, time-specific benchmarks and documented progress against them. In AID/Washington, the comparable figure was only 15 percent.² Additional details are provided in appendix III, table III.1.

¹We did not analyze benchmarks for grants that had a scheduled duration of less than a year since interim progress reporting may not be required or appropriate in such cases.

²Percentage is between 14.2 percent and 16.5 percent at the 95-percent confidence level.

Figure 4.1: Performance Benchmarks and Documented Progress for Major Grant Objective by Location for Grants Active in Fiscal Year 1991

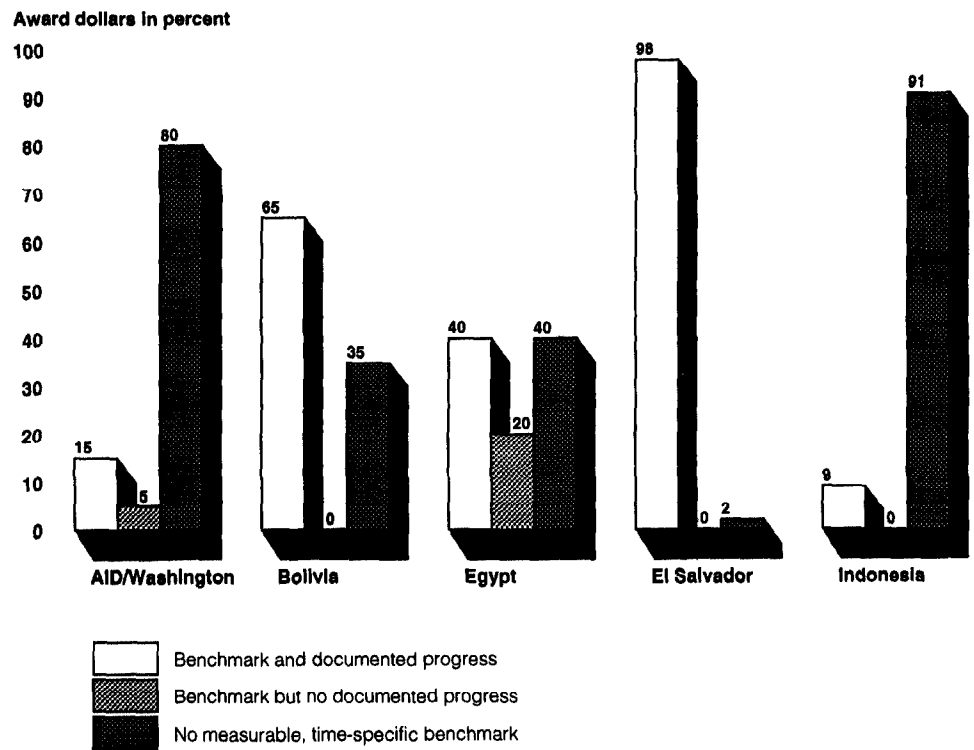
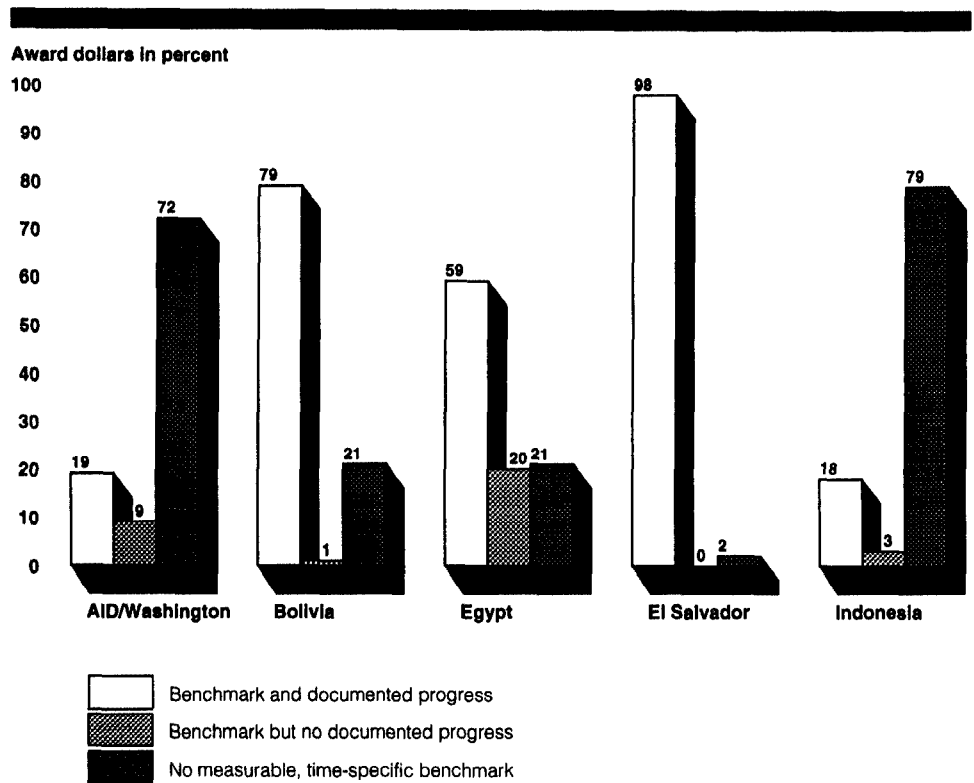


Figure 4.2 shows whether a measurable, time-specific benchmark was used to monitor any grant objective. With the exception of El Salvador, which did not change, the percentages improved from the levels shown in figure 4.1. Nevertheless, a substantial number of grant recipients were not monitored against a single specific benchmark. Additional details are provided in appendix III, table III.2.

Figure 4.2: Performance Benchmarks and Documented Progress for Any Grant Objective by Location for Grants Active in Fiscal Year 1991



AID officials disagreed about the need for specific performance benchmarks. Some officials pointed out that grants are supposed to provide the recipient substantial flexibility and questioned whether specific performance benchmarks were therefore appropriate. One AID Office of Procurement official said that she would be “suspicious” of a grant program description that was too specific since it would suggest a contractual as opposed to an assistance relationship. In addition, a Regional Legal Adviser noted that AID had a limited ability to hold grantees to specific benchmarks. Other officials indicated that benchmarks were a useful monitoring tool. For example, the Chief of the Office of Projects in El Salvador stated that monitoring interim progress against measurable and time-specific benchmarks allowed the mission to detect and remedy implementation problems in a timely manner and to readily assess project impacts.

**Inspector General Has
Reported Similar Findings**

In 1992, AID's Inspector General reported similar findings at AID missions in Bangladesh and the Philippines. The Inspector General reported that, for three of the five grants and cooperative agreements reviewed in Bangladesh, the mission did not ensure that the recipient's program description included benchmarks or that the recipient provided the benchmarks within a reasonable period of time after the start of the agreement. For instance, the objectives for one cooperative agreement were to train university staff, establish a media center, and strengthen a library, but the Inspector General found that the grant proposal contained no benchmarks. The Inspector General concluded that the absence of benchmarks made it difficult, if not impossible, for the mission to evaluate the program's progress, even though the recipients had already spent \$3.3 million.

In the Philippines, the Inspector General reported that the implementation plans and progress reports of grant recipients had little objective data to measure performance. For example, although training was listed for one grant, the number of sessions and trainees was not specified. In two instances, the recipients' progress reports did not compare actual accomplishments against established goals. The Inspector General concluded that the mission did not have procedures to ensure that implementation plans included measurable performance targets or that recipients used these indicators.

**Time Constraints and
Insufficient Travel
Funds Impeded
Monitoring Efforts**

AID uses a variety of tools to monitor grant recipients, including progress reports, financial reports, and site visits. Despite the importance of site visits, however, project officers in AID/Washington, Egypt, and Indonesia indicated that they did not have sufficient time or travel funds to conduct them. We also found that AID/Washington did not consistently delegate monitoring responsibilities to field missions for its grants implemented overseas.

**Progress and Financial
Reports Were Usually
Adequate**

AID handbook guidance states that the project officer should ensure that the recipient submits reports as required by the terms of the assistance agreement. It states further that AID should receive, review, and analyze at least annual reports on the recipient's accomplishments and operations. In Bolivia, Egypt, and El Salvador, most grants had this requirement, while in Indonesia only 5 percent did. For the remaining grants, AID generally required semi-annual or annual reports.

Financial reports are an important monitoring tool because they can help identify deviations from anticipated expenditure patterns. According to one AID official, grant expenditures typically start slowly, rise to a peak, decline to a low, and then take a short upswing at the end of the grant period. AID also uses financial reports to determine whether recipients are meeting their cost-sharing or cost-matching obligations.

We asked project officers to assess the extent to which various factors, such as lack of time and reporting delays, hindered their monitoring efforts. Project officers in AID/Washington and the four missions we visited indicated that poor quality progress and financial reports or delays by the recipient in submitting those reports were not significant hindrances to monitoring.

Site Visits Were Not Made as Often as Desired

According to AID handbook guidance, site visits are among the most significant aspects of grant oversight. Site visits enable project officers to obtain first-hand impressions of the recipient's progress and to identify and resolve problems that the grantee may have not reported. The guidance also points out that the possibility of site visits helps keep a recipient "on its toes." The number of site visits AID conducts depends on the size, complexity, and terms of the agreement; the availability of travel funds; and other work priorities of the project officer.

In AID/Washington, Egypt, and Indonesia, project officers cited shortages of time or travel funds as significant hindrances to grant monitoring. In AID/Washington, project officers indicated that a shortage of time for monitoring was a great or moderate hindrance for grants valued at \$1.63 billion, or 50 percent of the total AID/Washington award dollars.³ For Egypt, the corresponding figure was 26 percent. AID/Washington project officers indicated that shortage of travel funds was a great or moderate hindrance for grants valued at \$1.38 billion, or 48 percent of the total AID/Washington awards.⁴ The corresponding percentage for Indonesia was 39 percent.

According to several project officers, constraints on time and travel funds limited their ability to conduct site visits. In Indonesia, mission officials told us that site visits should be conducted at least semi-annually.

³Dollar amount is between \$1.33 billion and \$1.53 billion, and the percentage is between 46.5 percent and 53.6 percent at the 95-percent confidence level.

⁴Dollar amount is between \$1.30 billion and \$1.46 billion, and the percentage is between 45.5 percent and 51.1 percent at the 95-percent confidence level.

However, we were also told that because of limited travel funds, project officers are fortunate to visit a representative sample of activities once a year. One project officer told us that he had been responsible for monitoring 15 grants the previous year but that funding allowed him to visit only three grant sites. In the absence of site visits, project officers relied on reports submitted by recipients. One project officer indicated that local organizations tended to hide problems. In an effort to improve monitoring, the mission has begun awarding a smaller number of larger grants to prime grantees who in turn help monitor subgrants.

In Egypt, project officers said that heavy workloads prevented them from visiting as many sites as desired. One project officer told us that one grant was being implemented in 18 locations throughout Egypt. However, because of the difficulty of visiting each one, he relied on the recipient's progress reports to determine whether grant activities such as seminars and training courses were taking place. Some project officers indicated that implementation sites outside of Cairo were visited less frequently than those near the mission because of the long travel time required. Consistent with these views, the mission cited insufficient site visits as a major weakness in its 1991 internal control assessment.

Monitoring Duties Were Frequently Not Delegated to Field Missions

AID handbook guidance states that where work is performed in the field under a grant or cooperative agreement administered by AID/Washington, the AID/Washington project officer should request site visits by a field project officer. However, AID/Washington project officers indicated that no overseas mission had formally been delegated monitoring responsibilities for about 80 percent of AID/Washington grants. These grants accounted for nearly 90 percent of the total award dollars.⁵ For about 50 percent of these grants, they also indicated that they had not received any monitoring information from a field mission.

This situation, in conjunction with limited travel funds, has negatively affected AID's ability to adequately monitor recipients of AID/Washington grants. For example, one project officer responsible for a grant being implemented in 33 countries told us that she had not been able to make any overseas site visits in the past year due to lack of travel funds. She said that monitoring input by missions was limited to their comments on the recipient's annual reports. Another project officer told us that since he had assumed responsibility for a grant in August 1992, he had only been able to make site visits to 2 of the 14 implementation sites and was unsure of how

⁵Percentage is between 82.8 percent and 95.0 percent at the 95-percent confidence level.

many site visits had been made previously. In another case, the project officer stated that the grant project had been designed so that mission involvement would not be necessary but that shortages of travel funds prevented her from making as many site visits as desired.

Although AID/Washington project officers indicated that greater mission input would be helpful, they also cited potential barriers to designating monitoring responsibilities. They indicated, for example, that missions are already overburdened monitoring their own grants and sometimes lack the kinds of expertise needed to monitor technical grants. They also said that missions have little incentive to monitor AID/Washington grants that do not fit with their own programs and objectives.

Financial Integrity Act Reviews Did Not Include Key Internal Controls

AID's Financial Integrity Act reviews did not assess compliance with the internal controls procedures discussed in this report. These reviews are conducted using an internal controls questionnaire distributed by AID/Washington.⁶ To complete the internal controls questionnaire, responding units had to rate applicable internal control techniques as "satisfactory," "unsatisfactory," or "not applicable" based on general knowledge or detailed testing. AID procedures call for detailed testing to be done at least once during the 3-year review cycle.

The internal controls questionnaire distributed by AID/Washington included a separate section on grants. However, the control techniques listed in this section do not specifically include the controls discussed in this chapter or chapters 2 and 3. For example, bureaus and missions were not asked to (1) determine whether instrument selection decisions were reviewed by a grant officer and appropriately documented in a memorandum of negotiation, (2) assess whether noncompetitive award justifications were routinely prepared and reviewed by a grant officer for sufficiency, or (3) determine whether measurable, time-specific benchmarks were established.⁷ (See appendix IV for a complete list of grant-related control techniques included in AID's internal controls questionnaire.)

⁶For the fiscal year 1992 cycle, most units were only asked to review material weakness and control techniques rated as unsatisfactory in the previous year's assessment.

⁷AID's procurement certification reviews address the first two controls. However, the number of locations and grants reviewed and the scope of the review is so limited that significant problems can be missed. As suggested by AID's Procurement Executive, the certification process should only be viewed as supplementing rather than replacing the agency's internal controls system.

Conclusions and Recommendations

The substantial resources AID devotes to specific support grants underscores the need for good internal controls. The ultimate responsibility for these controls rests with AID management. Good internal controls are essential to achieving full accountability over grant funds. They also facilitate the achievement of development objectives in the most efficient and effective manner. For the grants we reviewed, AID did not consistently implement or document key internal controls. By allowing these deficiencies, AID management has weakened its ability to guide and regulate program activities and increased opportunities for waste and misuse of assistance resources.

AID might have competed more grants if it had consistently adhered to handbook guidance. Project officers did not follow procedures requiring written justifications for noncompetitive awards. As a result, AID managers had little assurance that competition was maximized and that the principal benefit of competition—selection of the most capable recipients—was achieved. AID guidance does not specify what kind of support is needed to justify noncompetitive awards based on the prospective recipient's capability or the nature of its proposal. We believe that existing guidance provides an inadequate basis for judging whether an exemption from competition is proper and has led to wide variance in the quality of justifications. We also believe that the handbook provision exempting some special programs from requiring noncompetitive award justifications is a potential loophole that is vulnerable to misuse. Finally, we noted that grant officers frequently failed to prepare written rationales for instrument selection, thereby increasing the probability that some grants were used for the sole purpose of avoiding the more stringent competition requirements associated with contracts. Besides the negative effects associated with lost competition, we noted that other losses can accrue when a grant is inappropriately used in place of a contract. For example, according to one AID official, the government loses its ability to demand that certain product or service specifications be met.

AID has not adequately implemented controls intended to ensure that negotiated budgets are reasonable and that grant recipients can adequately manage AID funds. AID guidance requires prior to award that the grant officer justify the proposed budget and make a determination that the prospective recipient can adequately manage the grant. Contrary to this guidance, grant officers did not consistently include a discussion of these two tasks in a memorandum of negotiation. Discussions that were prepared varied widely in quality, reflecting the absence of detailed handbook guidance on their format and content. We believe that these

deficiencies make AID vulnerable to providing excessive grant funds and making awards to unqualified organizations. The lack of proper documentation also weakens the ability of AID management to hold responsible AID officials accountable for their judgments and decisions.

AID could significantly improve its monitoring of grant recipients. AID guidance, for example, calls for project managers to use performance benchmarks and measurable indicators of progress to monitor projects. Often such benchmarks and indicators were not used or they did not correspond to specific target dates. We believe that using specific benchmarks would enhance AID's ability to (1) accurately assess grant progress and (2) identify and address implementation problems that would otherwise reduce program effectiveness. We believe that specific benchmarks are appropriate when they are (1) established by the recipient alone or in cooperation with AID and (2) used as a monitoring tool rather than a rigid enforcement mechanism.

This report does not explore in depth the underlying causes for AID's failure to adequately comply with existing internal control requirements. However, we believe the problem of noncompliance is symptomatic of larger management problems AID has experienced over the years. Our recent general management study of AID focuses on these underlying problems.¹ That report points out, among other things, that (1) AID staff and resources are spread too thin for the agency to properly perform its job; (2) AID has not had an effective work force planning system; (3) some employees lack the necessary skills in areas such as contract management and procurement; (4) AID has lacked central controls over its decentralized operations; and (5) the agency has not held its bureaus, missions, or key personnel accountable for properly implementing programs or following agency guidance.

In responding to our general management study, the new AID Administrator indicated a personal commitment to "fix the administrative processes that are broken" to improve efficiency and provide information required for central oversight. We believe the recommendations offered in this report will assist the Administrator in that endeavor.

Recommendations

Because we found a pattern of high levels of noncompliance with various AID internal control requirements concerning grants, we believe it is

¹Foreign Assistance: AID Strategic Direction and Continued Management Improvements Needed (GAO/NSIAD-93-106, June 11, 1993).

incumbent on the AID Administrator to take the necessary steps to ensure that established procedures are followed and effective internal controls are actually implemented. We recommend that the AID Administrator

- ensure that grant officers prepare memorandums of negotiation that include (1) a rationale for instrument selection, (2) a justification of all budget elements, and (3) a determination of recipient responsibility;
- ensure that project officers (1) prepare a written justification for noncompetitive award, when appropriate, in the form of an attachment to the project implementation order; (2) monitor grant recipients against measurable and time-specific benchmarks; and (3) request field assistance whenever possible for monitoring AID/Washington grants implemented overseas;
- revise handbook guidance to (1) specify what kind of support is needed to adequately justify a noncompetitive award based on the recipient's capability or the nature of its proposal; (2) require that noncompetitive awards to registered private voluntary organizations for umbrella or field programs be supported by a written justification; and (3) indicate what information should be included in a budget justification; and
- use the agency's Financial Integrity Act review process to annually assess AID/Washington and mission compliance with the various internal controls discussed in this report.

Agency Comments

In commenting on a draft of this report, AID stated that it did not dispute our findings and that it generally agreed with the report's recommendations. (See app. V.) AID indicated that it plans to improve compliance with grant and cooperative agreement documentation requirements through increased oversight of the award process. AID stated that it plans to assess agency compliance through annual Financial Integrity Act and procurement certification reviews.

AID also stated that although we found substantial cases of noncompliance with documentation requirements, it was pleased that we found (1) no systemic problems with AID's grant and cooperative agreement process or (2) that nothing was inherently wrong with its competitive process. This conclusion by AID is unwarranted. Our report clearly states that our audit objectives were to determine whether AID had effective controls and procedures, which we found it does not have. Our report further states that we did not attempt to identify or examine potential adverse effects of noncompliance with AID's system of internal controls.

Competition Data

Table I.1 shows the number and value of grants awarded on a competitive and noncompetitive basis by location. AID/Washington awarded 57 percent of its grant dollars noncompetitively. Three of the four overseas missions we visited awarded an even higher percentage of their grant funds on a noncompetitive basis. The substantial number of noncompetitive awards in El Salvador is particularly significant given the large dollar value of the mission's grant portfolio relative to the other missions we visited.

Table I.1: Competitive and Noncompetitive Awards by Location for Grants Active in Fiscal Year 1991

Dollars in millions

	Competitive			Noncompetitive			Total ^b		
	Number	Amount	Percent	Number	Amount	Percent	Number	Amount	Percent
AID/Washington ^a	512	\$1,161.3	41	445	\$1,637.7	57	957 ^c	\$2,799.0	98 ^d
Bolivia	2	0.2	<1	23	64.5	100	25	64.8	100
Egypt	0	0	0	29	69.1	100	29	69.1	100
El Salvador	3	40.2	16	26	215.3	84	29	255.5	100
Indonesia	58	18.7	79	5	4.9	21	63	23.6	100

^aAID/Washington results are based on a cost-weighted sample of 114 grants valued at \$1,722.8 million.

^bTotals may not add due to rounding.

^cEighty cases with missing values representing approximately 2 percent of the award dollars are not included.

^dThe total does not equal 100 percent due to missing values and rounding.

Table I.2 shows, for each mission, the distribution of competitive and noncompetitive awards between U.S. and non-U.S. organizations. In Bolivia and El Salvador, there were a small number of competitive awards to U.S. organizations but none to non-U.S. organizations. In Egypt, there were no competitive awards to either type of organization. The Indonesia mission awarded 30 competitive grants to U.S. organizations and 28 competitive grants to non-U.S. organizations.

**Appendix I
Competition Data**

Table I.2: Competitive and Noncompetitive Awards to U.S. and Non-U.S. Organizations by Location for Grants Active in Fiscal Year 1991

Dollars in millions

	Competitive			Noncompetitive			Total ^b		
	Number	Amount	Percent	Number	Amount	Percent	Number	Amount	Percent
U.S.									
AID/Washington ^a	447	\$1,151.8	41	445	\$1,637.7	59	892	\$2,789.6	100
Bolivia	2	0.2	1	9	33.0	99	11	33.2	100
Egypt	0	0	0	22	48.5	100	22	48.5	100
El Salvador	3	40.2	40	11	59.5	60	14	99.7	100
Indonesia	30	12.4	79	3	3.3	21	33	15.6	100
Non-U.S.									
AID/Washington	65	9.5	100	0	0	0	65	9.5	100
Bolivia	0	0	0	14	31.5	100	14	31.5	100
Egypt	0	0	0	7	20.6	100	7	20.6	100
El Salvador	0	0	0	15	155.8	100	15	155.8	100
Indonesia	28	6.3	79	2	1.6	21	30	8.0	100

^aAID/Washington grants are based on a cost-weighted sample of 114 grants valued at \$1,772.8 million.

^bTotals may not add due to rounding.

Table I.3 shows the number and value of grants for which AID officials were able to locate a documented rationale for instrument selection. A documented rationale could not be found for grants accounting for over one-fourth of the AID/Washington award dollars. Among the missions, El Salvador and Indonesia had the lowest level of documentation.

**Appendix I
Competition Data**

Table I.3: Documentation of Rationale for Instrument Selection by Location for Grants Active in Fiscal Year 1991

Dollars in millions

Status	Documented			Not documented			Total		
	Number	Amount	Percent	Number	Amount	Percent	Number	Amount	Percent
AID/Washington ^a	780	\$2,095.0	74	257	\$754.7	26	1,037	\$2,849.7	100
Bolivia	20	56.1	86	5	8.7	14	25	64.8	100
Egypt	22	52.4	76	7	16.8	24	29	69.2	100
El Salvador	0	0	0	29	255.5	100	29	255.5	100
Indonesia ^b	0	0	0	63	23.6	100	63	23.6	100

^aAID/Washington results are based on a cost-weighted sample of 49 grants valued at \$1,289.6 million.

^bIndonesia results are based on a cost-weighted sample of 23 grants valued at \$16.7 million.

Table I.4 shows the number and value of noncompetitive grants for which AID officials could locate a written justification for noncompetitive award. As indicated, 28 percent of AID/Washington funds were not covered by a written justification. Among the missions, El Salvador had the lowest level of documentation.

Table I.4: Documentation of Noncompetitive Award Justifications by Location for Grants Active in Fiscal Year 1991

Dollars in millions

	Documented			Not documented			Total		
	Number	Amount	Percent	Number	Amount	Percent	Number	Amount	Percent
AID/Washington ^a	282	\$1,126.5	72	139	\$442.9	28	421	\$1,569.4	100
Bolivia	21	58.6	91	2	5.9	9	23	64.5	100
Egypt	21	41.2	60	8	27.9	40	29	69.1	100
El Salvador	3	9.1	4	23	206.2	96	26	215.3	100
Indonesia ^b	3	4.5	100	0	0	0	3	4.5	100

^aAID/Washington results are based on a cost-weighted sample of 49 grants valued at \$1,289.6 million.

^bIndonesia results are based on a cost-weighted sample of 23 grants valued at \$16.7 million.

Budget Justifications and Responsibility Determinations

Table II.1 shows the number and value of grants for which AID officials could locate a written budget justification. In AID/Washington, grants accounting for 87 percent of the award dollars had a budget justification. In Bolivia, the comparable figure was 97 percent while in Indonesia it was only 3 percent.

Table II.1: Documentation of Budget Justifications by Location for Grants Active in Fiscal Year 1991

Dollars in millions

Status	Documented			Not documented			Total		
	Number	Amount	Percent	Number	Amount	Percent	Number	Amount	Percent
AID/Washington ^a	846	\$2,487.9	87	191	\$361.8	13	1,037	\$2,849.7	100
Bolivia	24	62.9	97	1	1.9	3	25	64.8	100
Egypt	24	48.8	71	5	20.3	29	29	69.1	100
El Salvador	7	37.6	15	22	217.9	85	29	255.5	100
Indonesia ^b	1	0.6	3	62	23.0	97	63	23.6	100

^aAID/Washington results are based on a cost-weighted sample of 49 grants valued at \$1,289.6 million.

^bIndonesia results are based on a cost-weighted sample of 23 grants valued at \$16.7 million.

Table II.2 shows the number and value of grants for which AID officials could locate a written responsibility determination. In AID/Washington, grants accounting for 69 percent of the award dollars had a written responsibility determination. In Bolivia and Egypt, the comparable figures were 83 percent and 81 percent, respectively. No grants in El Salvador or Indonesia had a written responsibility determination.

**Appendix II
Budget Justifications and Responsibility
Determinations**

Table II.2: Documentation of Grant Officer Responsibility Determinations by Location for Grants Active in Fiscal Year 1991

Dollars in millions

Status	Documented			Not documented			Total ^c		
	Number	Amount	Percent	Number	Amount	Percent	Number	Amount	Percent
AID/Washington ^a	776	\$1,960.4	69	261	\$889.2	31	1,037	\$2,849.7	100
Bolivia	18	54.1	83	7	10.7	17	25	64.8	100
Egypt	24	55.7	81	5	13.4	19	29	69.1	100
El Salvador	0	0	0	29	255.5	100	29	255.5	100
Indonesia ^b	0	0	0	63	23.6	100	63	23.6	100

^aAID/Washington results are based on a cost-weighted sample of 49 grants valued at \$1,289.6 million.

^bIndonesia results are based on a cost-weighted sample of 23 grants valued at \$16.7 million.

^cTotals may not add due to rounding.

Table II.3 shows how frequently certain primary data sources were cited in written responsibility determinations. In AID/Washington and Egypt, firsthand knowledge or information from other knowledgeable officials about the recipient's past performance was frequently not mentioned, while in Bolivia it was mentioned more than half the time. Audit reports were usually not cited in all three locations. In Egypt, however, audit reports were cited in 9 of 15 responsibility determinations.

**Appendix II
Budget Justifications and Responsibility
Determinations**

Table II.3: Primary Source Data in Responsibility Determinations by Location for Grants Active in Fiscal Year 1991

Dollars in millions

Data source	AID/Washington ^a			Bolivia			Egypt		
	Number	Amount	Percent	Number	Amount	Percent	Number	Amount	Percent
First-hand knowledge or information from other knowledgeable officials about recipient's past performance									
Discussed	298	\$408.0	21	10	\$52.5	97	7	\$40.4	73
Not discussed	478	1,552.5	79	8	1.5	3	17	15.2	27
Total^b	776	\$1,960.5	100	18	\$54.0	100	24	\$55.7	100
Audit reports									
Discussed	8	\$311.9	16	2	\$2.2	4	9	\$24.0	43
Not discussed	768	1,648.6	84	16	51.8	96	15	31.7	57
Total^b	776	\$1,960.5	100	18	\$54.0	100	24	\$55.7	100

Note: El Salvador and Indonesia were omitted from this table because they did not have any written responsibility determinations for the grants we reviewed.

^aAID/Washington results are based on a cost-weighted sample of 49 grants valued at \$1,289.6 million.

^bTotals may not add due to rounding.

Monitoring Data

Tables III.1 and III.2 show the number of grants for which AID (1) did not monitor recipients against measurable, time-specific benchmarks, (2) established such benchmarks but could not provide documentary evidence of progress against them, and (3) monitored progress against measurable, time-specific benchmarks and provided documentary evidence of progress against them. Table III.1 shows this data for the benchmark that the project officer identified with the major grant objective.

Table III.1: Performance Benchmarks and Documented Progress for Major Grant Objective by Location for Grants Active In Fiscal Year 1991

Information available	Benchmark and documented progress		Benchmark but no documented progress		No measurable time-specific benchmark		Total	
	Number	Percent	Number	Percent	Number	Percent	Number	Percent
AID/Washington ^a	128	15	11	5	666	80	805	100
Bolivia	10	65	0	0	12	35	22	100
Egypt	9	40	2	20	18	40	29	100
El Salvador	21	98	0	0	3	2	24	100
Indonesia ^b	4	9	0	0	2	91	63	100

Note: Percent is percentage of award dollars.

^aAID/Washington results are based on a cost-weighted sample of 49 grants valued at \$1,289.6 million.

^bIndonesia results are based on a cost-weighted sample of 23 grants valued at \$16.7 million.

Table III.2 shows the same data for benchmarks corresponding to any grant objective, including the major objective.

**Appendix III
Monitoring Data**

Table III.2: Performance Benchmarks and Documented Progress for Any Grant Objective by Location for Grants Active in Fiscal Year 1991

Information available	Benchmark and documented progress		Benchmark but no documented progress		No measurable time-specific benchmark		Total	
	Number	Percent	Number	Percent	Number	Percent	Number	Percent
AID/Washington ^a	135	19	13	9	657	72	805	100
Bolivia	11	79	1	1	10	21	22	100
Egypt	12	59	2	20	15	21	29	100
El Salvador	22	98	0	0	2	2	24	100
Indonesia ^b	6	18	1	3	56	79	63	100

Note: Percent is percentage of award dollars.

^aAID/Washington results are based on a cost-weighted sample of 49 grants valued at \$1,289.6 million.

^bIndonesia results are based on a cost-weighted sample of 23 grants valued at \$16.7 million.

Financial Integrity Act Internal Controls

The following controls were listed in AID's fiscal year 1992 internal controls questionnaire.

- Agency policy for the review, approval, and maintenance of private voluntary organization registration is incorporated into the mission standard operating procedures and consistently followed.
- The mission utilizes an appropriate and systematic proposal review and approval process that is incorporated into the mission standard operating procedures and consistently followed.
- Agency procedures for properly authorizing and negotiating the grant/cooperative agreement are incorporated into the mission standard operating procedures and consistently followed.
- Per agency guidance, all appropriate authorization, administrative, financial, and legal provisions are incorporated into the grant/cooperative agreements and are reviewed by AID's legal officer and controller in a systematic clearance process.
- All grant/cooperative agreements are signed by an authorized officer only after funds have been administratively approved.
- All nonprofit organizations receiving AID funding provide AID with periodic financial status reports indicating the status of funding.
- All nonprofit contributions are verified by the mission or bureau.
- Periodic performance reports are prepared by the grantees and reviewed by AID officers with follow-up as appropriate.
- Nonprofit organizations' procurement policies and procedures are reviewed, if warranted, by significant procurement activities.
- Policy guidance for the fulfillment of all audit responsibilities of nonprofit organizations is incorporated into mission standard operating procedures and all grant/cooperative agreements and is consistently followed.
- Documentation and approval of all deviations and extensions follow agency policy.
- Agency procedures for properly closing out nonprofit grant/cooperative agreements are incorporated into the mission standard operating procedures and consistently followed.

Comments From the Agency for International Development

Note: GAO comments supplementing those in the report text appear at the end of this appendix.



U.S. AGENCY FOR
INTERNATIONAL
DEVELOPMENT

AUG 4 1993

Associate
Administrator
for Finance and
Administration

Mr. Frank C. Conahan
Assistant Comptroller General
United States General
Accounting Office
441 G Street, N.W. - Room 5055
Washington, D.C. 20548

Dear Mr. Conahan:

I am pleased to provide the Agency for International Development's (A.I.D.) formal response on the draft GAO report entitled "FOREIGN ASSISTANCE: Improvements Needed in AID's Oversight of Grants and Cooperative Agreements."

We do not dispute the findings of the report and are in basic agreement with the recommendations. We intend to improve compliance with grant and cooperative agreement documentation requirements by increased oversight of the award process. In accordance with the final recommendation, we will assess compliance with the internal controls discussed in the report as part of the annual Financial Integrity Act review process. We will also include grants and cooperative agreements in the evaluation reviews which we routinely conduct in order to certify the Agency's procurement system. These steps should remedy the deficiencies found and improve compliance with existing procedures.

We would like to note that while the report found some cases of substantial noncompliance with documentation requirements, it did not find systemic problems with A.I.D.'s grant/cooperative agreement process. For example, despite the fact that documentation on choice of instrument was lacking from all the grants reviewed in Indonesia and El Salvador, the audit did not indicate that incorrect choices were made. The grant officers in each country indicated that choice of instrument was duly considered even though written evidence was lacking. Similarly, documentation for noncompetitive awards was missing in a substantial number of files, but there is no indication of anything inherently wrong with the competitive process A.I.D. follows.

320 TWENTY-FIRST STREET, N.W., WASHINGTON, D.C. 20523

Appendix V
Comments From the Agency for
International Development

- 2 -

One point concerning choice of instrument and competition should be clarified. In the Executive Summary, statements on pages four and five indicate that A.I.D. did not have assurance of maximum competition because the choice of instrument was not documented. Competition, or lack thereof, is not a basis for choosing the proper instrument. It would be improper to use a contract solely to encourage increased competition. Documentation of choice of instrument is a separate decision process from consideration of appropriate competition.

Thank you for the opportunity to respond to the GAO draft report and for the courtesies extended by your staff in the conduct of this review.

Sincerely,

RA Ames

Richard A. Ames
Chief Financial Officer

Now on pp. 3-4.

See comment 1.

Appendix V
Comments From the Agency for
International Development

The following are GAO's comments on the Agency for International Development's letter dated August 6, 1993.

GAO Comments

1. We have modified the report to clarify that competition, or the lack thereof, is not a basis for choosing the proper instrument.

Major Contributors to This Report

National Security and International Affairs Division, Washington, D.C.

Lawrence L. Suda, Assistant Director
Michael M. ten Kate, Evaluator-in-Charge
James M. Fields, Social Science Analyst
Julia M. Kennon, Computer Specialist
Steven K. Westley, Evaluator
Eugene D. Beye, Evaluator

European Office

Patrick A. Dickriede, Site Senior
Joanne L. Jurmu, Evaluator

Far East Office

Patricia K. Yamane, Site Senior
Joyce L. Akins, Evaluator

Ordering Information

The first copy of each GAO report and testimony is free. Additional copies are \$2 each. Orders should be sent to the following address, accompanied by a check or money order made out to the Superintendent of Documents, when necessary. Orders for 100 or more copies to be mailed to a single address are discounted 25 percent.

Orders by mail:

U.S. General Accounting Office
P.O. Box 6015
Gaithersburg, MD 20884-6015

or visit:

Room 1000
700 4th St. NW (corner of 4th and G Sts. NW)
U.S. General Accounting Office
Washington, DC

Orders may also be placed by calling (202) 512-6000
or by using fax number (301) 258-4066.

United States
General Accounting Office
Washington, D.C. 20548

Official Business
Penalty for Private Use \$300

First-Class Mail
Postage & Fees Paid
GAO
Permit No. G100